

ORIGINAL

MEMORANDUM



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TO: Docket Control Center

FROM: Thomas M. Broderick
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: January 22, 2016

RE: STAFF REPORT FOR JOSHUA VALLEY UTILITY COMPANY, INC.'S
APPLICATION FOR AN INCREASE IN ITS RATES (DOCKET NO. W-
02023A-15-0315)

Attached is the Staff Report for Joshua Valley Utility Company, Inc.'s application for an increase in its rates. Staff recommends approval of the rate application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 1, 2016.

TMB:BCA:red\ML

Originator: Brendan Aladi

Arizona Corporation Commission

DOCKETED

JAN 22 2016

DOCKETED BY

Service List for: Joshua Valley Utility Company, Inc.
Docket No. W-02023A-15-0315

Mr. John Ratliff
Joshua Valley Utility Company
PO Box 247
Meadview, Arizona 86444

Mr. Thomas M. Broderick
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Dwight Nodes
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**JOSHUA VALLEY UTILITY COMPANY, INC.
DOCKET NO. W-02023A-15-0315**

APPLICATION FOR A PERMANENT RATE INCREASE

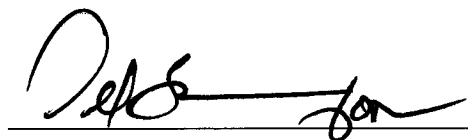
JANUARY 22, 2016

STAFF ACKNOWLEDGMENT

The Staff Report for Joshua Valley Utility Company, Inc. ("Joshua Valley" or "Company") Docket No. W-02023A-15-0315, was the responsibility of the Staff members listed below. Brendan Aladi was responsible for the review and analysis of the Company's application for a permanent rate increase. Jeff Francis was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.



Brendan Aladi
Public Utilities Analyst



Jeff Francis
Utilities Engineer



Carmen Madrid
Consumer Analyst I

EXECUTIVE SUMMARY
JOSHUA VALLEY UTILITY COMPANY, INC.
DOCKET NO. W-02023A-15-0315

On September 1, 2015, Joshua Valley Utility Company, Inc. ("Joshua Valley" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for a permanent rate increase. On October 1, 2015, Joshua Valley met sufficiency requirements.

Joshua Valley is a class D for-profit Arizona public service corporation that provides potable water service to approximately 947 customers. The Company's service area is in the unincorporated community of Meadview, located approximately 70 miles North of Kingman, Arizona in Mohave County.

Joshua Valley proposed a \$95,000 or a 34.55 percent revenue increase from test year revenue of \$274,958 to \$369,958. The proposed revenue increase would produce an operating income of \$60,957 for a 7.10 percent rate of return on an original cost rate base ("OCRB") of \$859,068. The Company's proposed fair value rate base ("FVRB") is also \$859,068. The Company's proposed rates would increase the typical residential bill with a median usage of 945 gallons from \$30.93 to \$41.57, for an increase of \$10.65, or 34.43 percent.

Staff recommends an \$82,057 or 29.84 percent increase over the test year revenue of \$274,958 to \$357,015. Staff's recommended revenue would produce an operating income of \$59,050 for a 7.10 percent rate of return on a Staff adjusted OCRB of \$831,653. Staff's FVRB is also \$831,653. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 945 gallons from \$30.93 to \$39.97, for an increase of \$9.04, or 29.24 percent as shown on Schedule BCA-5.

RECOMMENDATIONS

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule BCA-4.
2. The Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
3. The Company utilize the depreciation rates as delineated in Table C of the attached Engineering Report on a going-forward basis.
4. The Company prepare a report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. Lost water levels for Joshua Valley has been increasing for the past ten years and was calculated to be 17.42 percent in 2014 which exceeds acceptable limits. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the company allow water loss to be

greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding.

5. The Company install a meter on the 3-inch standpipe that will function year-round, regardless of freezing weather. This meter shall be installed and operational within 60 days of the effective date of the order issued in this proceeding.
6. That Joshua Valley file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three Best Management Practices ("BMP") in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/Water/forms.asp>. Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

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ATTACHMENT

Engineering Report.....	Attachment A
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FACT SHEET

Current Rates: Decision No. 64000 dated August 30, 2001.

Type of Ownership: C-Corporation

Location: The Company's service area is in the unincorporated community of Meadview, located approximately 70 miles North of Kingman, Arizona in Mohave County.

Rate Application Docketed: September 1, 2015

Current Test year Ended: December 31, 2014

Rates

	<u>Current Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Monthly Minimum Charges:			
5/8 x 3/4-inch meter	\$13.50	\$18.50	\$17.50
Gallons In Minimum	0	0	0
5/8 x 3/4 -inch Residential Customer Commodity Rate:			
Per 1,000 gallons:			
From 1 to 5,000 Gallons	\$3.40		
From 5,001 to 20,000 Gallons	\$3.90		
Over 20,000 Gallons	\$4.25		
From 1 to 3,000 Gallons		\$4.00	\$4.00
From 3,001 to 10,000 Gallons		\$5.25	\$5.20
Over 10,000 Gallons		\$6.54	\$6.43

Typical Residential Bill Analysis

<u>Present</u>			
<u>Proposed</u>			
<u>Recommended</u>	\$30.93	\$41.57	\$39.97

Based on median usage of 945 gallons

Customers:

Number of customers in prior rate case (12/31/99): 698

Average number of customers in the current test year (12/31/14): 947

Current Test Year customers by meter size:

5/8 X 3/4-inch	917
3/4-inch	4
1-inch	18
1-1/2-inch	1
2-Inch	1

Seasonal customers: 0

Customer notification: For rate application was filed on September 10, 2015.

Customer Complaints Concerning Rate Application: 0

Opinions – Rate Case Items - Opposed 4

SUMMARY OF RATE FILING

Joshua Valley Utility Company, Inc. ("Joshua Valley" or "Company") proposed a \$95,000 or a 34.55 percent revenue increase from test year revenue of \$274,958 to \$369,958. The proposed revenue increase would produce an operating income of \$60,957 for a 7.10 percent rate of return on an original cost rate base ("OCRB") of \$859,068. The Company's proposed fair value rate base ("FVRB") is also \$859,068. The Company's proposed rates would increase the typical residential bill with a median usage of 945 gallons from \$30.93 to \$41.57, for an increase of \$10.65, or 34.43 percent.

The test year results as adjusted by Utilities Division Staff ("Staff"), for Joshua Valley show total operating revenue of \$274,958, operating loss of \$3,811, for a rate of return that is not meaningful as shown on Schedule BCA-1, page 1 of 3.

Staff recommends an \$82,057 or 29.84 percent increase over the test year revenue of \$274,958 to \$357,015. Staff's recommended revenue would produce an operating income of \$59,050 for a 7.10 percent rate of return on a Staff adjusted OCRB of \$831,653. Staff's FVRB is also \$831,653. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 945 gallons from \$30.93 to \$39.97, for an increase of \$9.04, or 29.24 percent as shown on Schedule BCA-5.

According to the application, the Company requests a rate increase due to increases in the cost of operations and decrease in usage. The infrastructure is aging and continues to need improvements to maintain the current level of service.

BACKGROUND

On September 1, 2015, Joshua Valley filed an application with the Arizona Corporation Commission ("Commission") for a permanent rate increase. On October 1, 2015, Joshua Valley met sufficiency requirements.

Joshua Valley is a class D for-profit Arizona public service corporation that provides potable water service to approximately 947 customers. The Company's service area is in the unincorporated community of Meadview, located approximately 70 miles North of Kingman, Arizona in Mohave County. The Company's current rates and charges were authorized in Decision No. 64000, dated August 30, 2001.

CONSUMER SERVICES

Staff reviewed the Commission's records for the period beginning January 1, 2012, to November 23, 2015, and found no complaints and four opinions opposing the rate increase. A notarized affidavit of mailing for the Customer Notice was filed on September 10, 2015.

COMPLIANCE

A check of the Utilities Division Compliance Section Database indicates that there are currently no delinquencies for Joshua Valley as of October 5, 2015.

ENGINEERING ANALYSIS AND RECOMMENDATIONS

An inspection of the Company's water system was conducted by Jeff Francis, Staff Engineer, accompanied by the Company's Certified Operator and Representative, Ron Raymond on March 5, 2015. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

RATE BASE

The Company did not propose a fair value rate base that differs from its original cost rate base. Staff's adjustments decreased the Company's proposed rate base by \$27,415, from \$859,068 to \$831,653 as shown on Schedule BCA-2, page 1.

Plant-in-Service

Adjustment A decreases plant-in-service by \$37,653, from \$2,372,749 to \$2,335,096 as shown on Schedule BCA-2, pages 1 and 2. This reflects the removal of plant the Company failed to provide supporting invoices for.

Wells and Springs – Adjustment "a" decreases this account by \$10,201, from \$108,304 to \$98,103, as shown on Schedule BCA-2 pages 2 and 3. Staff decreased this account by \$10,103, to reflect the removal of the cost of wells and springs the Company failed to provide supporting invoices for.

Transmission and Distribution Mains – Adjustment "b" decreases this account by \$7,835, from \$1,992,877 to \$1,985,042, as shown on Schedule BCA-2 pages 2 and 3. Staff decreased this account by \$7,835, to reflect the removal of the cost of transmission and distribution mains the Company failed to provide supporting invoices for.

Meter and Meter Installations – Adjustment "c" decreases this account by \$14,106, from \$44,840 to \$30,734, as shown on Schedule BCA-2 pages 2 and 3. Staff decreased this account by \$14,106 to reflect the removal of the cost of meter and meter installations the Company failed to provide supporting invoices for.

Computer Software – Adjustment "d" decreases this account by \$1,497, from \$8,946 to \$7,449, as shown on Schedule BCA-2 pages 2 and 3. Staff decreased this account by \$1,497 to reflect the removal of the cost of computer software the Company failed to provide supporting invoices for.

Tools and Work Equipment – Adjustment “e” decreases this account by \$3,657, from \$3,657 to \$0, as shown on Schedule BCA-2 pages 2 and 3. Staff decreased this account by \$3,657 to reflect the removal of the cost of tools and work equipment the Company failed to provide supporting invoices for.

Miscellaneous Equipment – Adjustment “f” decreases this account by \$357, from \$357 to \$0, as shown on Schedule BCA-2 pages 2 and 3. Staff decreased this account by \$357 to reflect the removal of the cost of miscellaneous equipment the Company failed to provide supporting invoices for.

Accumulated Depreciation

Adjustment B decreases accumulated Depreciation by \$16,873, from \$1,481,455 to \$1,464,582, as shown on Schedule BCA-2, pages 1 and 4. This reflects the impact of Staff's recalculation of accumulated depreciation reserve based on Staff adjusted Plant-in-Service and Commission approved rates.

Amortization of Contribution in Aid of Construction (“CIAC”)

Adjustment C decreased amortization of CIAC by \$5,426, from \$26,254 to \$20,828, as shown on Schedule BCA-2, page 1 of 5. Staff calculated amortization of CIAC by computing the amortization on the CIAC from the year the CIAC was received.

Working Capital

Staff's adjustments D decreases working capital by \$1,208, from \$24,052 to \$22,844, as shown on Schedule BCA-2, pages 1 and 6.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

OPERATING INCOME STATEMENT

Operating Revenue

Staff made no operating revenue adjustments.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$5,756, from \$284,524 to \$278,768, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments are presented below.

Salaries and Wages Expense – Adjustment A increases salaries and wages expense by \$12,600, from \$103,971 to \$116,571, as shown on Schedule BCA-3, pages 1 and 2. This reflects the reclassification of owner's salary of \$20,000 from Acct No. 630, outside services expense to Acct No. 601, Salaries and wages expense and the removal of \$7,400 due to duplication of service efforts ($\$103,971 + \$20,000 - \$7,400 = \$116,571$). Both the owner and the General Manager perform the same service "oversee all aspects of operations".

Outside Services Expense – Adjustment B decreases outside services expense by \$20,000, from \$21,718 to \$1,718, as shown on Schedule BCA-3, pages 1 and 2. This reflects the reclassification of \$20,000 in owner's salary expense from outside services expense, Acct. No. 630 to salaries and wages expense, Acct. No. 601.

Water Testing – Adjustment C increases water testing expense by \$370, from \$3,120 to \$3,490, as shown on Schedule BCA-3, pages 1 and 2 to reflect Staff Engineer's calculation of water testing expense.

Depreciation Expense – Adjustment D decreases depreciation expense by \$199 from \$50,066 to \$49,867, as shown on Schedule BCA-3, pages 1 and 2. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Income Tax Expense – Adjustment E increases test year income tax expense by \$1,473, from negative \$2,406 to negative \$933, to reflect Staff's calculation of the income tax obligation on Staff's adjusted test year taxable income, as shown on Schedule BCA-3, page 1. Staff's calculation is shown on Schedule BCA-1 page 3.

REVENUE REQUIREMENT

Staff recommends total annual operating revenue of \$357,015 as shown on Schedule BCA-3, page 1. Staff recommended revenue is an increase of \$82,057 or 29.84 percent over the test year revenue of \$274,958. Staff's recommended revenue would produce an operating income of \$59,050 for a 7.10 percent rate of return on the Staff recommended OCRB of \$831,653 as shown on Schedule BCA-1, page 1.

The Company requested a cash flow of \$111,023 as shown on Schedule BCA-1, page 2 of 3. Staff's total revenue requirement of \$357,015, provides the Company with a cash flow of \$108,917, also, shown on Schedule BCA-1, page 2 of 3. This is a sufficient cash flow to pay operating expenses and contingencies.

RATE DESIGN

Schedule BCA-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's current rate structure is comprised of three tiers, with a first-tier 1 to 5,000 - gallons; 5,001 to 20,000-gallons for the second-tier; and over 20,000-gallons for the third-tier. Its monthly minimum charges do not include any gallons. In this filing, the Company proposes to retain a three tiered rate structure, with a first-tier 1 to 3,000-gallons; 3,001 to 10,000-gallons for the second tier; and over 10,000-gallons for the third-tier.

The Company's proposed rates would increase the typical residential bill, for customers with a 5/8 x 3/4 - inch meter and a median usage of 945 gallons, from \$30.93 to \$41.57 for an increase of \$10.65, or 34.43 percent as shown on Schedule BCA-5.

Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 945 gallons from \$30.93 to \$39.97, for an increase of \$9.04, or 29.24 percent as shown on Schedule BCA-5.

MISCELLANEOUS SERVICE CHARGES

Reconnection (Delinquent) Charge – The Company proposes to decrease the reconnection (delinquent) service charge from \$50 to \$45. Staff recommends a charge of Reconnection (Delinquent) Charge of \$45.

Meter Test Charge – The Company proposes to increase meter test charge from \$25 to \$40. Staff recommends the Meter Test Charge of \$25 since the Commission provides meter testing at no charge.

NSF Check Charge – The Company proposes to increase the NSF check charge from \$20 to \$30. Staff recommends \$15, bank charges \$12 fee.

Meter Re-read – The Company proposes to increase the meter re-read charge from \$15 to \$25. Staff recommends a meter re-read charge of \$15.

After Hours Service Charge – Staff recommends adding a new \$50 after hours charge. An additional fee for service provided after normal business hours is appropriate when such service is at the customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service.

Moreover, it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request or for the customer's convenience. For example, under Staff's proposal, a customer would be subject to a \$40 Establishment fee if it is done during normal business hours, but would pay an additional \$50 after-hours fee if the customer requested that the establishment be done after normal business hours.

Moving Customer Meters – The Company proposed a new Moving Meter at Customer Request Charge (R14-2-405.B) at Cost. Staff agrees with this charge.

SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested changes to its service line and meter installation charges as shown on Schedule BCA-4.

Staff has recommended service line and meter installation charges based upon an analysis of costs as discussed in the attached Engineering Report. Further, since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends separate service line and meter installation charges. Staff recommends approval of Staff's service line and meter installation charges are shown on Schedule BCA-4.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule BCA-4.
2. The Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
3. The Company utilize the depreciation rates as delineated in Table C of the attached Engineering Report on a going-forward basis.
4. The Company prepare a report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. Lost water levels for Joshua Valley has been increasing for the past ten years and was calculated to be 17.42 percent in 2014 which exceeds acceptable limits. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding.
5. The Company install a meter on the 3-inch standpipe that will function year-round, regardless of freezing weather. This meter shall be installed and operational within 60 days of the effective date of the order issued in this proceeding.
6. That Joshua Valley file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three Best Management Practices ("BMP") in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/Water/forms.asp>.

Staff further recommends that a maximum of two BMPs may come from the “Public Awareness/Public Relations” or “Education and Training” categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

SUMMARY OF FILING

	-- Present Rates --		Proposed		Staff
	Company	Staff	Company	Recommended	
	as	as	as	as	
	Filed	Adjusted	Filed	Adjusted	
1 Revenues:					
2 Metered Water Revenue	\$ 271,457	\$ 271,457	\$ 366,457	\$	353,514
3 Unmetered Water Revenue	-	-	-		-
4 Other Water Revenues	3,501	3,501	3,501		3,501
5					
6 Total Operating Revenue	<u>\$ 274,958</u>	<u>\$ 274,958</u>	<u>\$ 369,958</u>	<u>\$</u>	<u>357,015</u>
7					
8 Operating Expenses:					
9 Operation and Maintenance	\$ 214,635	\$ 207,605	\$ 214,635	\$	207,605
10 Depreciation	50,066	49,867	50,066		49,867
11 Property & Other Taxes	19,587	19,587	23,244		20,640
12 Income Tax	(2,406)	(933)	18,414		17,211
13 Bad Debt Expense	<u>\$ 2,642</u>	<u>\$ 2,642</u>	<u>\$ 2,642</u>	<u>\$</u>	<u>2,642</u>
14 Total Operating Expense	<u>\$ 284,524</u>	<u>\$ 278,769</u>	<u>\$ 309,001</u>	<u>\$</u>	<u>297,965</u>
15					
16 Operating Income/(Loss)	<u>\$ (9,566)</u>	<u>\$ (3,811)</u>	<u>\$ 60,957</u>	<u>\$</u>	<u>59,050</u>
17					
18					
19 Rate Base O.C.L.D.	\$ 859,068	\$ 831,653	\$ 859,068	\$	831,653
20					
21 Rate of Return - O.C.L.D	N/M	N/M	7.10%		7.10%
22					
23 Operating Margin	N/M	N/M	16.48%		16.54%
24					
25 Cash Flow - Before Debt Service(L10+L16)	\$ 40,500	\$ 46,057	\$ 111,023	\$	108,917

NOTE: Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

JOSHUA VILLEY UTILITY COMPANY

Docket No. W-02023A-15-0315

Test Year Ended :12/31/14

Schedule BCA-1

Page 2 of 3

REVENUE REQUIREMENT CALCULATION

LINE NO.	DESCRIPTION		[A]		[B]
			COMPANY ORIGINAL COST		STAFF ORIGINAL COST
1	Adjusted Rate Base		\$ 859,068		\$ 831,653
2	Adjusted Operating Income (Loss)		\$ (9,566)		\$ (3,810)
3	Current Rate of Return (L2 / L1)		Not Meaningful		Not Meaningful
4	Required Rate of Return (L5 / L1)		7.10%		7.10%
5	Required Operating Income (L4 * L1)		\$ 60,957		\$ 59,050
6	Operating Income Deficiency (L5 - L2)		\$ 70,523		\$ 62,860
7	Gross Revenue Conversion Factor		0.0000		1.3054
8	Required Revenue Increase (L7 * L6)		\$ 95,000		\$ 82,057
9	Adjusted Test Year Revenue		\$ 274,958		\$ 274,958
10	Proposed Annual Revenue (L8 + L9)		\$ 369,958		\$ 357,015
11	Required Increase in Revenue (%)		34.55%		29.84%
12	Proposed Operating Margin		16.48%		16.54%
13	Depreciation Expense		\$ 50,066		\$ 49,867
14	Cash Flow (L5 + L13)		\$ 111,023		\$ 108,917

References:

Column (A): Company Application

Column (B): Staff Schedules

GROSS REVENUE CONVERSION FACTOR AND INCOME TAX CALCULATION FOR RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	23.3948%			
5	Subtotal (L3 - L4)	76.6052%			
6	Revenue Conversion Factor (L1 / L5)	1.305394			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	22.3991%			
9	One Minus Combined Income Tax Rate (L7 - L8)	77.6009%			
10	Uncollectible Rate	0.0%			
11	Uncollectible Factor (L9 * L10)	0			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	5.5000%			
14	Federal Taxable Income (L12 - L13)	94.5000%			
15	Applicable Federal Income Tax Rate (Line 44)	17.8827%			
16	Effective Federal Income Tax Rate (L14 x L15)	16.8991%			
17	Combined Federal and State Income Tax Rate (L13 + L16)	22.3991%			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	22.3991%			
20	One Minus Combined Income Tax Rate (L18 - L19)	77.6009%			
21	Property Tax Factor (XXX-18, L24)	1.2830%			
22	Effective Property Tax Factor (L 21 * L 22)	0.9956%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		23.3948%		
24	Required Operating Income	\$ 59,050			
25	Adjusted Test Year Operating Income (Loss)	\$ (3,810)			
26	Required Increase in Operating Income (L24 - L25)		\$ 62,860		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 17,211			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ (933)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 18,144		
30	Recommended Revenue Requirement (Schedule BCA-1, Line 10)	\$ 357,015			
31	Uncollectible Rate (Line 10)	0.0%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (BCA-3, L19)	\$ 11,636			
36	Property Tax on Test Year Revenue (BCA-3, L 20)	\$ 10,583			
37	Increase in Property Tax Due to Increase in Revenue (BCA-3, L21)		\$ 1,053	\$ (0)	
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 82,057		
<u>Calculation of Income Tax:</u>					
39	Revenue	Test Year \$274,958	\$ 82,057	STAFF Recommended \$ 357,015	
40	Operating Expenses Excluding Income Taxes	279,701	\$ 1,053	\$ 280,754	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L37- L38)	\$ (4,743)		\$ 76,261	
43	Arizona State Income Tax Rate	5.5000%		5.5000%	
44	Arizona Income Tax (L39 x L40)	\$ -	\$ (261)	\$ -	\$ 4,194
45	Federal Taxable Income (L33 - L35)	\$ (4,482)		\$ 72,067	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (672)		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -		\$ 5,517	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax		\$ (672)		\$ 13,017
52	Combined Federal and State Income Tax (L35 + L42)		\$ (933)		\$ 17,211
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				17.88%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule BCA-2)	\$ 831,653			
55	Weighted Average Cost of Debt	0.00%			
56	Synchronized Interest (L45 X L46)	\$ -			

ORIGINAL COST RATE BASE/FAIR VALUE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$ 2,372,749	\$ (37,653) A	\$ 2,335,096
Less:			
Accum. Depreciation	1,481,455	(16,873) B	1,464,582
Net Plant	\$ 891,294	\$ (20,781)	\$ 870,513
Less:			
Meter Deposits (AIAC)	25,226	-	25,226
AIAC Refunds	-	-	-
Total Advances	25,226	-	25,226
Contributions Gross	58,342	-	58,342
Less:			
Amortization of CIAC	26,254	(5,426) C	20,828
Net CIAC	32,088	5,426	37,514
Customer Deposits	-	-	-
ADIT	-	-	-
Total Deductions	\$ 57,314	\$ 5,426	\$ 62,740
Plus:			
1/24 Power	1,036	(0)	1,036
1/8 Operation & Maint.	24,052	(1,208) D	22,844
Inventory	-	-	-
Prepayments	-	-	-
Total Additions	\$ 25,088	\$ (1,209)	\$ 23,879
Rate Base	\$ 859,068	\$ (27,415)	\$ 831,653

Explanation of Adjustment:

- A - Refer to Schedule BCA-2, Pages 2 and 3
- B - Refer to Schedule BCA-2, Page 4
- C - Refer to Schedule BCA-2, Pages 5 and 6
- D - Refer to Schedule BCA-2, Page 6

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization Costs	\$ -	\$ -	\$ -
302 Franchise Costs	-	-	-
303 Land & Land Rights	6,176	-	6,176
304 Structures & Improvements	2,745	-	2,745
307 Wells & Springs	108,304	(10,201) a	98,103
311 Electric Pumping Equipment	72,920	(0)	72,920
320 Water Treatment Equipment	-	-	-
320.1 Water Treatment Plants	-	-	-
320.2 Solutions & Feeders	-	-	-
320.3 Media for Arsenic Treatment	-	-	-
330 Distribution Reservoirs & Standpipes	-	-	-
330.1 Storage Tank	40,080	-	40,080
330.2 Pressure Tanks	-	-	-
331 Transmission & Distribution Mains	1,992,877	(7,835) b	1,985,042
333 Services	18,456	-	18,456
334 Meters & Meter Installations	44,840	(14,106) c	30,734
335 Hydrants	-	-	-
336 Backflow Prevention Devices	-	-	-
339 Other Plant & Misc. Equip.	-	-	-
340 Office Furniture & Fixtures	11,367	-	11,367
340.1 Computer & Software	8,946	(1,497) d	7,449
341 Transportation Equipment	56,693	-	56,693
342 Store Equipment	-	-	-
343 Tools & Work Equipment	3,657	(3,657) e	-
344 Laboratory Equipment	-	-	-
345 Power Operated Equipment	5,331	-	5,331
345 Communications Equipment	-	-	-
347 Miscellaneous Equipment	357	(357) f	-
348 Other Tangibles	-	-	-
105 C.W.I.P.	-	-	-
TOTALS	\$ 2,372,749	\$ (37,653) A	\$ 2,335,096

STAFF RATE BASE ADJUSTMENTS

a -	WELLS AND SPRINGS - Per Company	\$ 108,304	
	Per Staff	\$ 98,103	\$ (10,201)
	To remove the cost of plant the Company failed to provide supporting invoices.		
b -	TRANSMISSION & DISTRIBUTION MAINS - Per Company	1,992,877	
	Per Staff	1,985,042	\$ (7,835)
	To remove the cost of plant the Company failed to provide supporting invoices.		
c -	METERS AND METER INSTALLATIONS - Per Company	44,840	
	Per Staff	30,734	\$ (14,106)
	To remove the cost of plant the Company failed to provide supporting invoices.		
d -	COMPUTER AND SOFTWARE - Per Company	\$ 8,946	
	Per Staff	7,449	\$ (1,497)
	To remove the cost of plant the Company failed to provide supporting invoices.		
e -	TOOLS & WORK EQUIPMENT - Per Company	\$ 3,657	
	Per Staff	-	\$ (3,657)
	To remove the cost of plant the Company failed to provide supporting invoices.		
f -	MISCELLANEOUS EQUIPMENT - Per Company	\$ 357	
	Per Staff	-	\$ (357)
	To remove the cost of plant the Company failed to provide supporting invoices.		

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 1,481,455
Accumulated Depreciation - Per Staff	<u>1,464,582</u> B
Total Adjustment	<u>\$ (16,873)</u>

Explanation of Adjustment:

- B - To reflect Staff's calculation of accumulated depreciation reserve based on Staff's adjustments to plant.

ACCT		ACCUMULATED DEPRECIATION		
No.	Description	Company Application	Staff Adjustment	Staff Calculated
301	Intangibles	\$ -	\$ -	\$ -
303	Land and Land Rights	-	-	-
304	Structures and Improvements	2,227	-	2,227
307	Wells and Springs	30,080	(4,401)	25,679
310	Power Generation Equipment	-	-	-
311	Electrical Pumping Equipment	43,899	0	43,899
320.1	Water Treatment Plant	-	-	-
320.2	Solution Chemical Feeders	-	-	-
320.3	Media for Arsenic Treatment	-	-	-
330	Distribution Reservoirs & Standpipes	-	-	-
330.1	Storage Tank	26,294	-	26,294
330.2	Pressure Tank	-	-	-
331	Transmission and Distribution Mains	1,241,295	(1,175)	1,240,120
333	Services	14,976	-	14,976
334	Meters and Meter Installation	39,547	(8,813)	30,734
335	Hydrants	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-
340	Office Furniture and Fixtures	11,367	-	11,367
340.1	Computers and Software	8,107	(845)	7,262
341	Transportation Equipment	56,693	-	56,693
343	Tools and Work Equipment	1,371	(1,371)	-
345	Power Operated Equipment	5,331	-	5,331
346	Communications Equipment	-	-	-
347	Miscellaneous Equipment	268	(268)	-
348	Other Tangible Plant	-	-	-
	Total	\$ 1,481,455	(16,873)	\$ 1,464,582

CLAC Amortization Adjustment

		Amortization Rate		2.34%	
		CLAC		Amortization	
	Adds	Cumulative		Annual	Cumulative
Balance per Decision					
64000		\$	58,342.00		\$ 1,750.00
2001	-		58,342.00	1,362.72	3,112.72
2002	-		58,342.00	1,362.72	4,475.44
2003	-		58,342.00	1,362.72	5,838.16
2004	-		58,342.00	1,362.72	7,200.87
2005	-		58,342.00	1,362.72	8,563.59
2006	-		58,342.00	1,362.72	9,926.31
2007	-		58,342.00	1,362.72	11,289.03
2008	-		58,342.00	1,362.72	12,651.75
2009	-		58,342.00	1,362.72	14,014.47
2010	-		58,342.00	1,362.72	15,377.18
2011	-		58,342.00	1,362.72	16,739.90
2012	-		58,342.00	1,362.72	18,102.62
2013	-		58,342.00	1,362.72	19,465.34
2014	-		58,342.00	1,362.72	20,828.06
Test Year end 12/31/2014		\$	58,342.00		20,828.06
		Increase to amortization		\$	19,078.06
Net CLAC 12/31/14					\$ 37,513.94

STAFF RATE BASE ADJUSTMENTS

ADVANCE IN AID OF CONSTRUCTION (AIAC) - Per Company
Per Staff

25,226

25,226 \$ -

To reflect Staff's calculation of net AIAC balance based on the Company's application.

12/31/2000 Ending Balance (Decision No. 64000)	\$	32,302
AIAC Additions since the last rate case	\$	103,370
Less: AIAC Refunds since the last Rate case	\$	110,446
Net AIAC Balance	\$	25,226

C - AMORTIZATION OF CIAC - Per Company
Per Staff

26,254

20,828 \$ (5,426)

To reflect Staff's calculation of Amortization of CIAC based on the Company's application.

- WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company
Per Staff

\$ 1,036

1,036 \$ (0)

To reflect Staff's calculation of cash working capital based on Staff's recommendations for purchased power and purchased water.

D - WORKING CAPITAL (1/8 operation & Maint exp.) Per Company
Per Staff

\$ 24,052

22,844 \$ (1,208)

To reflect Staff's calculation of cash working capital based on Staff's recommendations for operation and maintenance expenses.
(excluding purchased power and purchased water expenses).

JOSHUA VALLEY UTILITY COMPANY

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Test Year Ended :12/31/14

Schedule BCA-3

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STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted	Staff Proposed Change	Staff Recommended
Revenues:					
461 Metered Water Revenue	\$ 271,457	\$ -	\$ 271,457	\$ 82,057	\$ 353,514
460 Unmetered Water Revenue	-	-	-		\$ -
474 Other Water Revenues	3,501	-	3,501		\$ 3,501
Total Operating Revenue	\$ 274,958	\$ -	\$ 274,958	\$ 82,057	\$ 357,015
Operating Expenses:					\$ -
601 Salaries and Wages	103,971	12,600 A	116,571	-	\$ 116,571
610 Purchased Water	-	-	-	-	\$ -
615 Purchased Power	24,854	-	24,854	-	\$ 24,854
618 Chemicals	-	-	-	-	\$ -
620 Repairs and Maintenance	8,240	-	8,240	-	\$ 8,240
621 Office Supplies & Expense	10,975	-	10,975	-	\$ 10,975
630 Outside Services	21,718	(20,000) B	1,718	-	\$ 1,718
635 Water Testing	3,120	370 C	3,490	-	\$ 3,490
641 Rents	4,800	-	4,800	-	\$ 4,800
650 Transportation Expenses	14,945	-	14,945	-	\$ 14,945
657 Insurance - General Liability	6,953	-	6,953	-	\$ 6,953
659 Insurance - Health and Life	-	-	-	-	\$ -
666 Regulatory Commission Expense - Rate Case	7,500	-	7,500	-	\$ 7,500
675 Miscellaneous Expense	7,559	-	7,559	-	\$ 7,559
403 Depreciation Expense	50,066	(199) D	49,867	-	\$ 49,867
408 Taxes Other Than Income	9,004	-	9,004	-	\$ 9,004
408.11 Property Taxes	10,583	0	10,583	1,053	\$ 11,636
409 Income Tax	(2,406)	1,473 E	(933)	18,144	\$ 17,211
676 Bad Debt Expense	2,642	-	2,642	-	\$ 2,642
Total Operating Expenses	\$ 284,524	\$ (5,756)	\$ 278,768	\$ 19,197	\$ 297,965
OPERATING INCOME/(LOSS)	\$ (9,566)	\$ 5,756	\$ (3,810)	\$ 62,860	\$ 59,050

OPERATING EXPENSE ADJUSTMENTS (Cont.)

A -	SALARIES AND WAGES EXPENSE - Per Company Per Staff	\$ 103,971	
		<u>116,571</u>	<u>\$ 12,600</u>
	\$20,000 - Owners Salary reclassified from outside services		
	<u>\$7,400 - Removed due to duplication of service efforts</u>		
	\$12,600		
B -	OUTSIDE SERVICES - Per Company Per Staff	\$ 21,718	
		<u>1,718</u>	<u>\$ (20,000)</u>
	To reclassify \$20,000 in salary for the owner from outside services expense to salaries and wages expense.		
C -	WATER TESTING - Per Company Per Staff	\$ 3,120	
		<u>3,490</u>	<u>\$ 370</u>
	To reflect Staff's annual water testing expense, per Staff's Engineering Report.		
D -	DEPRECIATION - Per Company Per Staff	\$ 50,066	
		<u>49,867</u>	<u>\$ (199)</u>
	See Schedule BCA-3, Page 4 for Calculation.		
E -	INCOME TAX - Per Company Per Staff	\$ (2,406)	
		<u>(933)</u>	<u>\$ 1,473</u>
	To reflect Staff's calculation of the income tax obligation on Staff's adjusted test year taxable income.		

PRO FORMA ANNUAL DEPRECIATION EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	UTILITY PLANT IN SERVICE BALANCES	FULLY/NON-DEPRECIABLE PLANT BALANCES	DEPRECIABLE PLANT IN SERVICE	DEPREC. RATE	DEPRECIATION EXPENSE
Plant In Service							
1	301	Organization Costs	\$ -	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Costs	-	-	-	0.00%	-
3	303	Land & Land Rights	6,176	6,176	-	0.00%	-
4	304	Structures & Improvements	2,745	-	2,745	3.33%	91
5	307	Wells & Springs	98,103	-	98,103	3.33%	3,267
6	311	Electric Pumping Equipment	72,920	31,510	41,410	12.50%	5,176
7	320	Water Treatment Equipment	-	-	-	-	-
8	320.1	Water Treatment Plants	-	-	-	3.33%	-
9	320.2	Solutions & Feeders	-	-	-	20.00%	-
10	320.3	Media for Arsenic Treatment	-	-	-	33.30%	-
11	330	Distribution Reservoirs & Standpipes	-	-	-	-	-
12	330.1	Storage Tank	40,080	-	40,080	2.22%	890
13	330.2	Pressure Tanks	-	-	-	5.00%	-
14	331	Transmission & Distribution Mains	1,985,042	-	1,985,042	2.00%	39,701
15	333	Services	18,456	-	18,456	3.33%	615
16	334	Meters & Meter Installations	30,734	30,734	-	8.33%	-
17	335	Hydrants	-	-	-	2.00%	-
18	336	Backflow Prevention Devices	-	-	-	6.67%	-
19	339	Other Plant & Misc. Equip.	-	-	-	6.67%	-
20	340	Office Furniture & Fixtures	11,367	11,367	-	6.67%	-
21	340.1	Computer & Software	7,449	-	7,449	20.00%	1,490
22	341	Transportation Equipment	56,693	56,693	-	20.00%	-
23	342	Store Equipment	-	-	-	4.00%	-
24	343	Tools & Work Equipment	-	-	-	5.00%	-
25	344	Laboratory Equipment	-	-	-	10.00%	-
26	345	Power Operated Equipment	5,331	5,331	-	5.00%	-
27	345	Communications Equipment	-	-	-	10.00%	-
28	347	Miscellaneous Equipment	-	-	-	10.00%	-
29	348	Other Tangibles	-	-	-	10.00%	-
30		Subtotal General	<u>\$ 2,335,096</u>	<u>\$ 141,811</u>	<u>\$ 2,193,285</u>		<u>\$ 51,229</u>
31		Composite Depre. Rate (O+0/K40)	2.34%				
		CIAC	<u>58,342</u>				
		Amortization of CIAC	1,363				
31		Depreciation Expense Before Amort. Of CIAC	\$ 51,229				
32		Less: Amortization of CIAC	<u>1,363</u>				
		Test Year Depreciation Expense - Staff	\$ 49,867				
		Depreciation Expense - Company	<u>50,066</u>				
		Staff's Total Adjustment:	<u>\$ (199)</u>				

JOSHUA VILLEY UTILITY COMPANY

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Test Year Ended :12/31/14

Schedule BCA-3

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OPERATING INCOME ADJUSTMENT F - PROPERTY TAXES

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 274,958	\$ 274,958
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 549,916	\$ 549,916
4	Staff Recommended Revenue	\$ 274,958	\$ 357,015
5	Subtotal (Line 4 + Line 5)	\$ 824,874	\$ 906,931
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 274,958	\$ 302,310
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 549,916	\$ 604,621
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 549,916	\$ 604,621
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	\$ 101,734	\$ 111,855
15	Composite Property Tax Rate - Obtained from ADOR	10.40290%	10.40290%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 10,583	
17	Company Proposed Property Tax	10,583	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 0	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 11,636
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		10,583
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 1,053
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 1,053
23	Increase in Revenue Requirement		\$ 82,057
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.283024%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue

Line 17: Company Application

Line 21: Line 19 - Line 20

Line 23: Schedule BCA-1, Page 2

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 13.50	\$ 18.50	\$ 17.50
3/4 Inch	25.00	27.75	25.50
1 Inch	35.00	46.25	42.50
1 1/2 Inch	80.00	92.50	85.00
2 Inch	180.00	148.00	180.00
3 Inch	200.00	296.00	200.00
4 Inch	300.00	462.50	300.00
6 Inch	\$ 400.00	\$ 925.00	\$ 600.00
8 Inch	-	-	-
<u>Commodity Charge - Per 1,000 Gallons</u>			
<u>5/8 x 3/4-Inch Meters and 3/4-Inch Meters</u>			
From 1 to 5,000 gallons	\$ 3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 3,000 gallons		\$ 4.00	\$ 4.00
From 3,001 to 10,000 gallons		5.25	5.20
Over 10,000 gallons		6.54	6.43
<u>1" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 20,000 gallons			5.20
Over 20,000 gallons			6.43
<u>1-1/2" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 50,000 gallons			5.20
Over 50,000 gallons			6.43
<u>2" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 90,000 gallons			5.20
Over 90,000 gallons			6.43
<u>3" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 200,000 gallons			5.20
Over 200,000 gallons			6.43
<u>4" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 300,000 gallons			5.20
Over 300,000 gallons			6.43
<u>6" Meter</u>			
From 1 to 5,000 gallons	3.40		
From 5,001 to 20,000 gallons	3.90		
Over 20,000 gallons	4.25		
From 1 to 10,000 gallons		5.25	
Over 10,000 gallons		6.54	
From 1 to 600,000 gallons			5.20
Over 600,000 gallons			6.43
<u>Coin Meter/Bulk</u>			
Per 1000 Gallons	\$ 5.00	\$ 6.54	\$ 6.43

Service Line and Meter Installation Charges

Establishment	\$ 35.00	\$ 35.00	\$ 35.00
Reconnection (Delinquent)	\$ 50.00	\$ 45.00	\$ 45.00
After Hours Service Charge	N/A	\$ 50.00	\$ 50.00
Meter Test (If Correct)	\$ 25.00	\$ 40.00	\$ 25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-establishment (within 12 months)	**	**	**
NSF Check	\$ 20.00	\$ 30.00	\$ 15.00
Deferred Payment (per month)	1.50%	1.50%	1.50%
Meter Re-read (if correct)	\$ 15.00	\$ 25.00	\$ 15.00
Late Fee (Per Month)	1.50%	1.50%	1.50%
Moving Customer Meter at Customer Request			
Per rule R14-2-405B	N/A	Cost	Cost
Fire Sprinkler (All Meter Sizes)	***	***	***

* Per Commission Rules R14-2-403(B)

** Months of system times the minimum. Per Commission Rule R14-2-403(D)

*** 2 percent of the monthly minimum for a comparable size meter connection but not less than \$10 per month.

Service Line and Meter Installation Charges

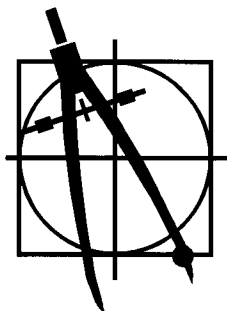
	Company Current Rates	Company Proposed			Staff Recommended		
		Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8" x 3/4" Meter	\$ 320	490	\$ 132	\$ 622	490	\$ 132	\$ 622
3/4" Meter	\$ 350	490	\$ 233	\$ 723	490	\$ 233	\$ 723
1" Meter	\$ 400	547	\$ 293	\$ 840	547	\$ 293	\$ 840
1-1/2" Meter	\$ 615	610	\$ 506	\$ 1,116	610	\$ 506	\$ 1,116
2" Turbine Meter	\$ 850	927	\$ 1,031	\$ 1,958	927	\$ 1,031	\$ 1,958
2" Compound Meter	\$ -	927	\$ 1,884	\$ 2,811	927	\$ 1,884	\$ 2,811
3" Turbine Meter	\$ -	1171	\$ 1,662	\$ 2,833	1,171	\$ 1,662	\$ 2,833
3" Compound Meter	\$ -	1308	\$ 2,546	\$ 3,854	1,308	\$ 2,546	\$ 3,854
4" Turbine Meter	\$ -	1661	\$ 2,647	\$ 4,308	1,661	\$ 2,647	\$ 4,308
4" Compound Meter	\$ -	1866	\$ 3,632	\$ 5,498	1,866	\$ 3,632	\$ 5,498
6" Turbine Meter	\$ -	2479	\$ 5,026	\$ 7,505	2,479	\$ 5,026	\$ 7,505
6" Compound Meter	\$ -	2615	\$ 6,939	\$ 9,554	2,615	\$ 6,939	\$ 9,554
Over 6"	\$ -	Cost	Cost	Cost	Cost	Cost	Cost

Typical Bill Analysis
Residential 5/8 Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,408	\$ 36.10	\$ 48.53	\$ 12.44	34.46%
Median Usage	945	30.93	41.57	\$ 10.65	34.43%
Staff Recommended					
Average Usage	2,408	\$ 36.10	\$ 46.86	\$ 10.77	29.82%
Median Usage	945	30.93	39.97	\$ 9.04	29.24%

Present & Proposed Rates (Without Taxes)
Residential 5/8 Inch Meter

Gallons Consumption	Company			Staff	
	Present	Proposed	%	Recommended	%
	5/8 x 3/4"	5/8 x 3/4"		5/8 x 3/4"	
	Rates	Rates	Increase	Rates	Increase
-	\$ 13.50	\$ 18.50	37.04%	\$ 17.00	25.93%
945	\$ 16.71	\$ 22.28	33.31%	\$ 20.78	24.33%
1,000	16.90	22.50	33.14%	21.00	24.26%
2,000	20.30	26.50	30.54%	25.00	23.15%
2,408	21.69	28.13	29.72%	26.63	22.80%
3,000	23.70	30.50	28.69%	29.00	22.36%
4,000	27.10	35.75	31.92%	34.20	26.20%
5,000	30.50	41.00	34.43%	39.40	29.18%
5,109	30.93	41.57	34.43%	39.97	29.24%
6,000	34.40	46.25	34.45%	44.60	29.65%
6,435	36.10	48.53	34.46%	46.86	29.82%
7,000	38.30	51.50	34.46%	49.80	30.03%
8,000	42.20	56.75	34.48%	55.00	30.33%
9,000	46.10	62.00	34.49%	60.20	30.59%
10,000	50.00	67.25	34.50%	65.40	30.80%
11,000	53.90	73.79	36.90%	71.83	33.27%
12,000	57.80	80.33	38.98%	78.26	35.40%
13,000	61.70	86.87	40.79%	84.69	37.26%
14,000	65.60	93.41	42.39%	91.12	38.90%
15,000	69.50	99.95	43.81%	97.55	40.36%
16,000	73.40	106.49	45.08%	103.98	41.66%
17,000	77.30	113.03	46.22%	110.41	42.83%
18,000	81.20	119.57	47.25%	116.84	43.89%
19,000	85.10	126.11	48.19%	123.27	44.85%
20,000	89.00	132.65	49.04%	129.70	45.73%
25,000	110.25	165.35	49.98%	161.85	46.80%
30,000	131.50	198.05	50.61%	194.00	47.53%
35,000	152.75	230.75	51.06%	226.15	48.05%
40,000	174.00	263.45	51.41%	258.30	48.45%
45,000	195.25	296.15	51.68%	290.45	48.76%
50,000	216.50	328.85	51.89%	322.60	49.01%
75,000	322.75	492.35	52.55%	483.35	49.76%
100,000	429.00	655.85	52.88%	644.10	50.14%



**ENGINEERING REPORT FOR
Joshua Valley Utility Company, Inc.**

**Docket No.
W-02023A-15-0315 (Rates)**

By Jeff Francis

October 5, 2015

CONCLUSIONS

1. Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Staff") concludes that the Joshua Valley Utility Company, Inc. ("Joshua Valley" or "Company") water system has adequate well production and storage capacities to serve the present customer base and a reasonable level of growth.
2. Based upon data submitted by the water system, Arizona Department of Environmental Quality ("ADEQ") has determined the Joshua Valley water system is in compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
3. Lost water for the Company's water system was calculated to be 17.42 percent during the test year.
4. The Joshua Valley water system is not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area ("AMA").
5. ADWR has reported that the Company's water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.
6. A check of the Utilities Division Compliance Section database showed that there are currently no delinquent Commission compliance items for the Company.
7. Joshua Valley has approved Curtailment and Backflow Tariffs on file with the Commission.

RECOMMENDATIONS

1. Lost water for Joshua Valley has been increasing for the past ten years and was calculated to be 17.42 percent in 2014 which exceeds acceptable limits. Staff recommends that the Company prepare a report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The

water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding.

2. Staff recommends that the Company install a meter on the 3-inch standpipe that will function year-round, regardless of freezing weather. This meter shall be installed and operational within 60 days of the effective date of the order issued in this proceeding.
3. Staff recommends an annual water testing expense of \$3,490 be used for purposes of this application.
4. Staff recommends that the Company continue using the depreciation rates presented in Table C on a going forward basis.
5. Joshua Valley proposes to increase its existing service line and meter installation charges. Staff recommends that the charges listed under "Company Proposed/Staff Recommended" in Table D be adopted.
6. Staff recommends that Joshua Valley file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three best management practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/Water/forms.asp>. Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

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A. INTRODUCTION AND LOCATION OF COMPANY

On September 1, 2015, Joshua Valley Utilities Company ("Joshua Valley" or "Company") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission") in docket No. W-02023A-15-0315. The Commission Utilities Division Staff ("Staff") engineering review and analysis of the application is presented in this report.

The Company provides water service to approximately 947 customers in the unincorporated community of Meadview, located approximately 70 miles north of Kingman, in Mohave County.

The plant facilities were visited on March 5, 2015, by Jeff Francis, Staff Utilities Engineer, accompanied by the Company's Certified Operator and representative Ron Raymond.¹

Figure 1 shows the location of the Company within Mohave County and Figure 2 delineates the Company's certificated area which covers approximately 4.5 square-miles.

¹ Mr. Raymond is a Certified Grade 2 Water Distribution System Operator, ADEQ Operator Identification No. OP006815.

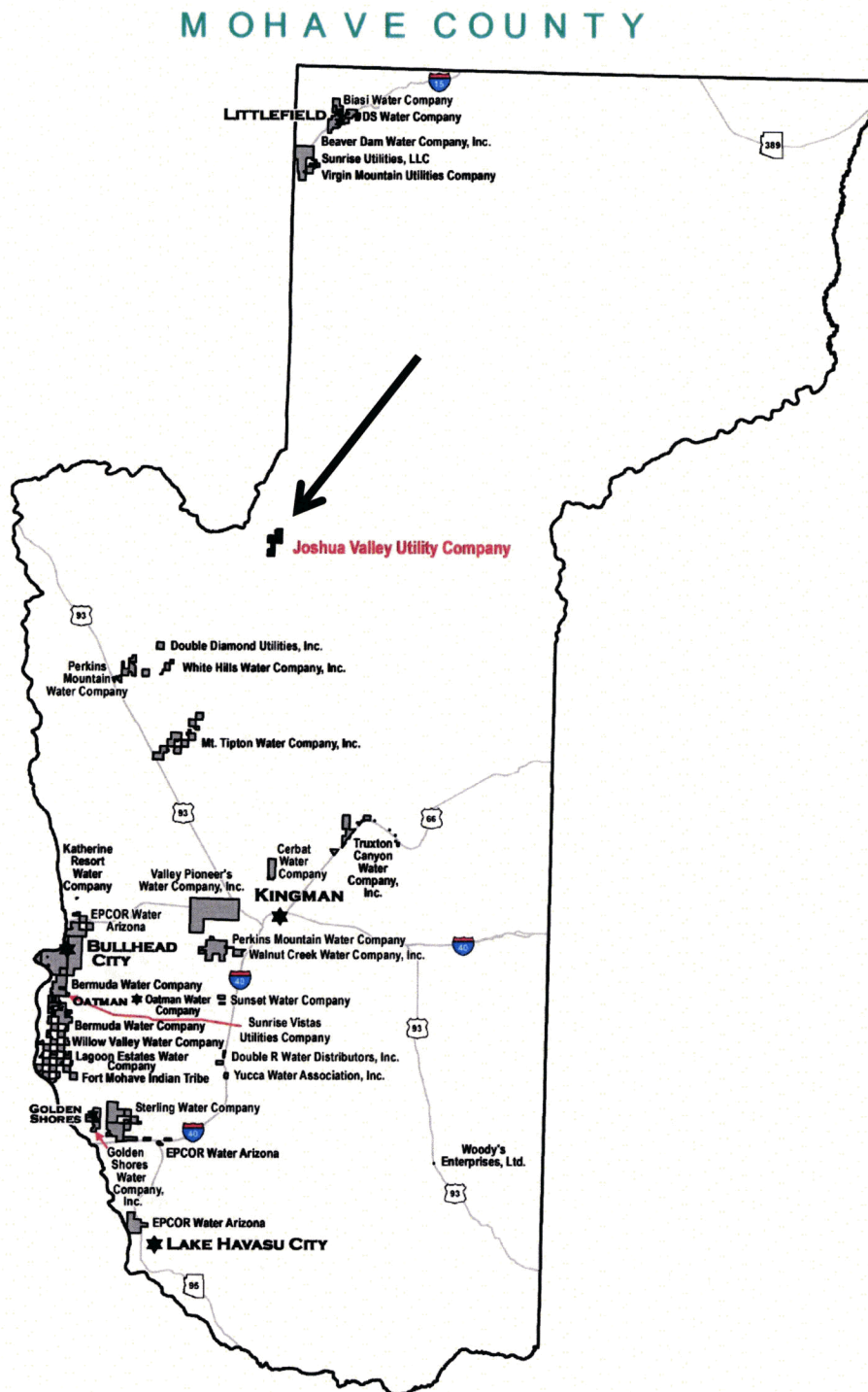


Figure 1. County Map



B. DESCRIPTION OF THE WATER SYSTEM

The Joshua Valley water system consists of five active wells, four storage tanks, a pressure tank and a distribution system with approximately 947 metered connections. There are also two stand pipes, one at the Unit 2 location and another at the Double Tanks location. The standpipe at the Unit 2 location is a coin operated, metered stand pipe and is used by those that live in the area but are not within the vicinity of the distribution mains and so must haul water. The standpipe at the Double Tanks location has a lock and a 3-inch meter, however the meter is not functioning (the meter is exposed to the elements, and per the Company it froze during winter weather shortly after it was installed). The primary user of this standpipe is Mohave County (for road maintenance and construction) and since the meter is not functioning, water is sold via an honor system.

A water system schematic is shown in Figure 3 and a plant facilities summary is shown in Table A below.

Table A. Joshua Valley Plant Facilities Summary²

Well Data							
Well No. (Location Site)	ADWR Well ID	Pump Size (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
#4 (Unit 2)	55-610733	15	43	600	10	2	1966
#3 (Middle Point)	55-610729	20	28	800	8	2	1972
#1 (Double Tanks)	55-610725	20	55	645	6	2	1973
#5 (Middle Point 2)	55-610726	20	72	600	6	2	1973
#6 (Echo Dr.)	55-914283	10	50	610	6	2	2012

Water Tanks				
Location Site	Storage		Pressure	
	Capacity (gallons)	Quantity	Capacity (Gallons)	Quantity
Double Tanks	100,000	2	5,000	1
Middle Point	125,000	1		
Yates	185,000	1		

² The information listed was based on one, or a combination of, the following sources: 1) Company's Application, 2) Commission Annual Reports, 3) Arizona Department of Water Resources Records, 4) Information contained in the Company's Response to a Staff Data Request and, 5) Information collected during Staff's site visit.

Table A. Joshua Valley Plant Facilities Summary (cont.)

Distribution Mains

Size (inches)	Material	Length (feet)
2	transite	2,400
3	PVC	2,865
4	PVC	107,670
4	transite	6,600
6	PVC	179,440
6	transite	8,400
8	PVC	9,705

Meters

Size (inches)	Quantity
5/8 x 3/4	917
3/4	4
1	18
1-1/2	1
2	1

Other Items

Location	Item Description
Double Tanks	3-inch standpipe (non-functioning meter)
Unit 2	1-inch standpipe (metered, coin operated)
Double Tanks	Two metal buildings (storage and maintenance)

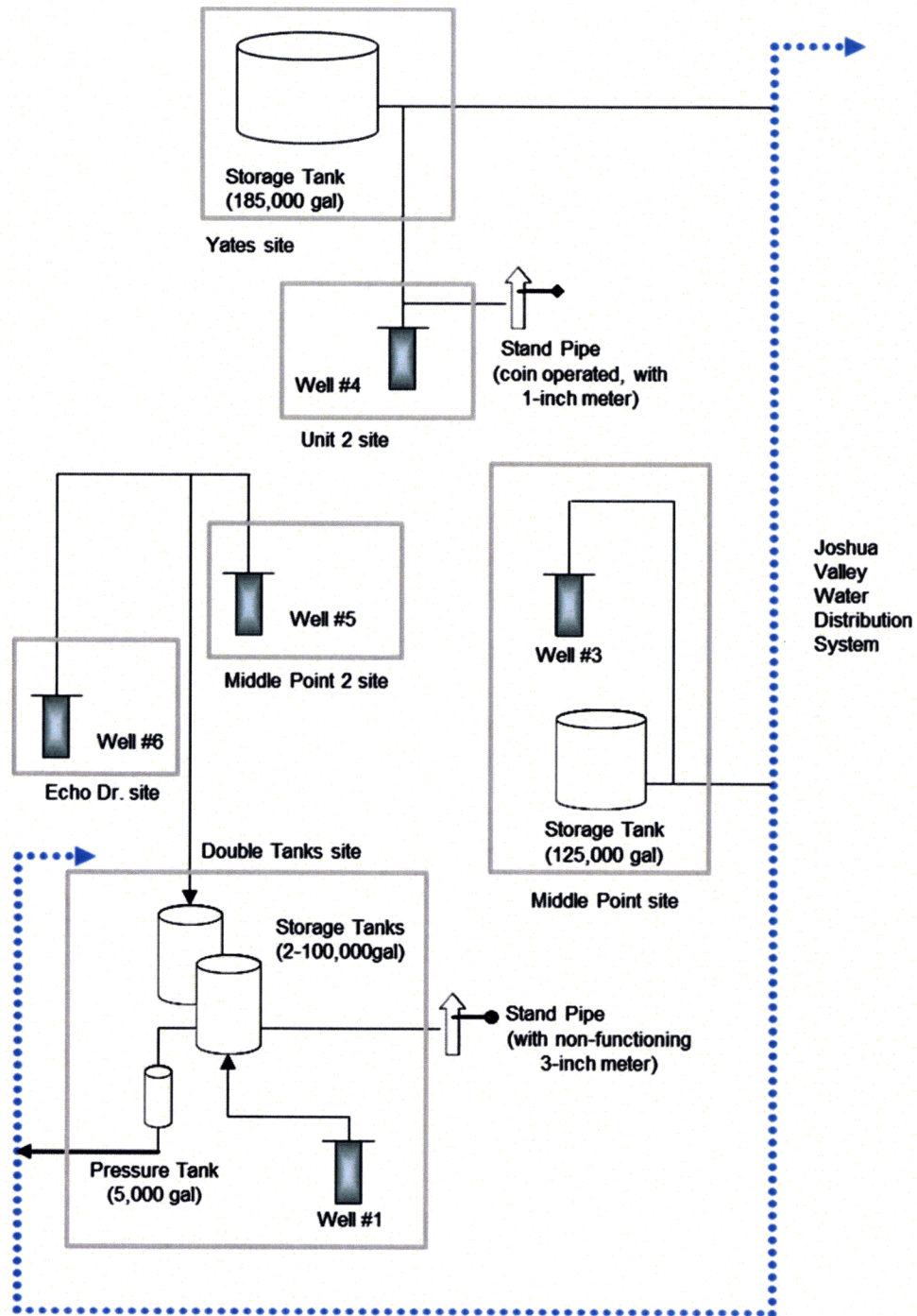


Figure 3. Joshua Valley Water System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending December 31, 2014. Customer consumption included a high monthly water use of 128 gallons per day (“GPD”) per connection in June, and the low water use was 54 GPD per connection in December. The average use for the twelve-month period was 89 GPD per connection. The Company reported 30,650,100³ gallons of water sold during the test year.

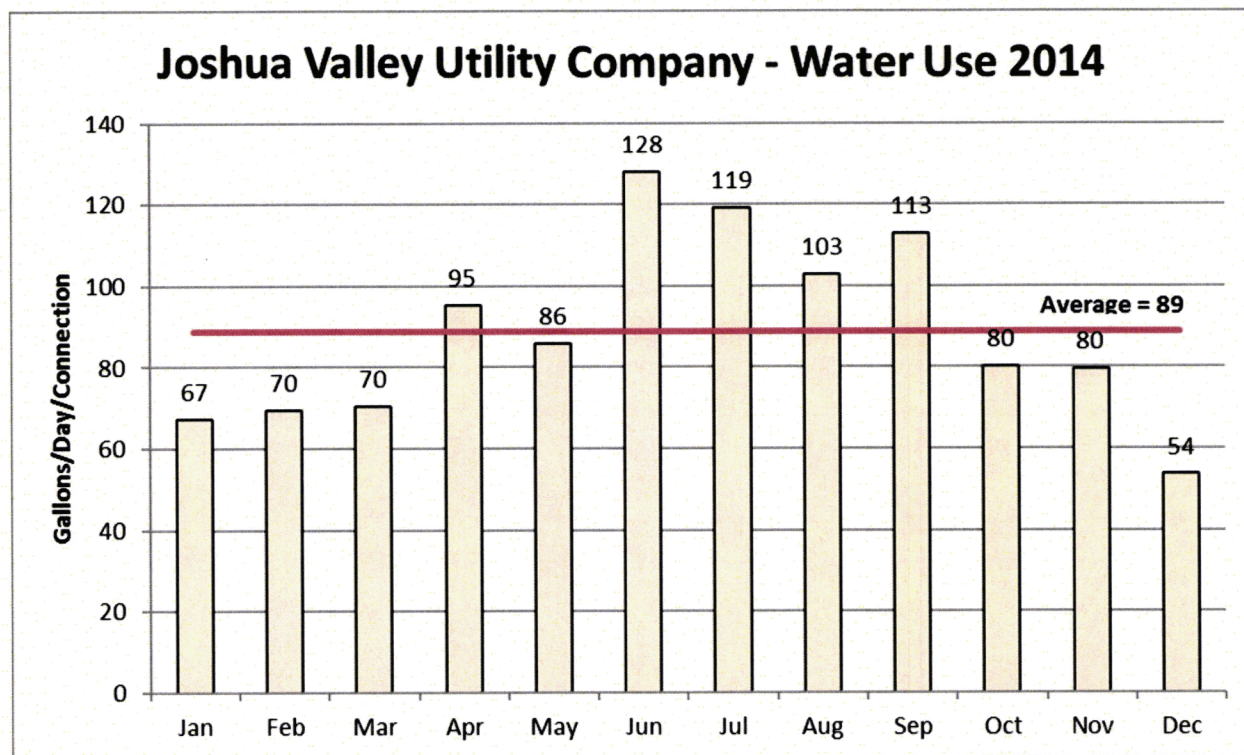


Figure 4. Joshua Valley Water Use

Non-Account Water

Non-account water should be 10 percent or less, and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company reported 37,117,700 gallons of water pumped and 30,650,100 gallons of water sold during the test year ending December 31, 2013, resulting in a water loss of 17.42 percent, which

³ Total water sold during the test year based on the Water Use Data Sheet on page 18 of the Rate Application.

exceeds acceptable limits. In order to understand if this was an anomaly, staff examined the historic water loss for Joshua Valley over the ten year period of 2005 to 2014. The results are shown in Figure 5.⁴

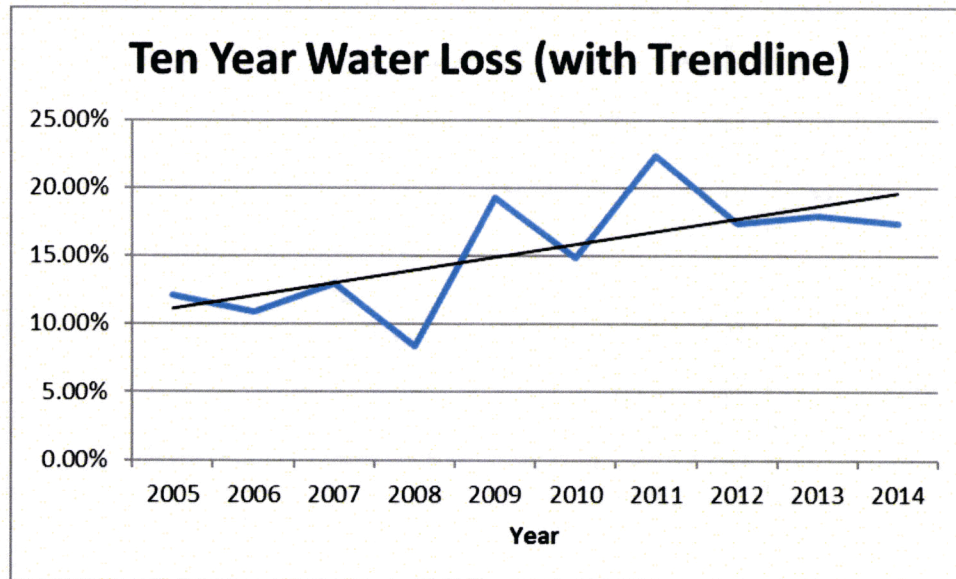


Figure 5. Joshua Valley Ten Year Water Loss

These results were discussed with the Company during the site visit and several potential causes were identified. First, there are many older meters in the Joshua Valley water system that are registering in the millions of gallons and which are suspected to be inaccurate, however the Company has been replacing meters only on an as-needed, reactive basis. Second, some of the underground infrastructure was put in place in the 1960s before the local streets were paved. The amount and type of road traffic has changed dramatically since then and is suspected to be causing leaks in this old infrastructure. In addition, the Company suspects there are leaks in the black poly pipe which was used for customer connections in this 1960s vintage infrastructure. Finally, the meter on the 3-inch standpipe has been non-functional for an extended period of time. There is concern by the Company of inaccuracy in the honor system being used to account for water usage on that standpipe.

Based on the above discussion along with the ongoing trend of increasing water loss, Staff recommends that the Company prepare a report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding.

⁴ Based on water use data obtained from the Company's Annual Reports on file with the ACC.

Staff further recommends that the Company install a meter on the 3-inch standpipe that will function year-round, regardless of freezing weather. This meter shall be installed and operational within 60 days of the effective date of the order issued in this proceeding.

System Analysis

Based on the water use data provided by the Company for the Test Year, Staff concludes that the system's total well production capacity of 248 GPM and total storage capacity of 510,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Based on customer data obtained from the Company's Annual Reports, it is projected that Joshua Valley will not have growth over the next 5 years. Figure 6 depicts the actual number of customers from 2004 to 2013 and projects an estimated decline for the next five years using linear regression analysis.

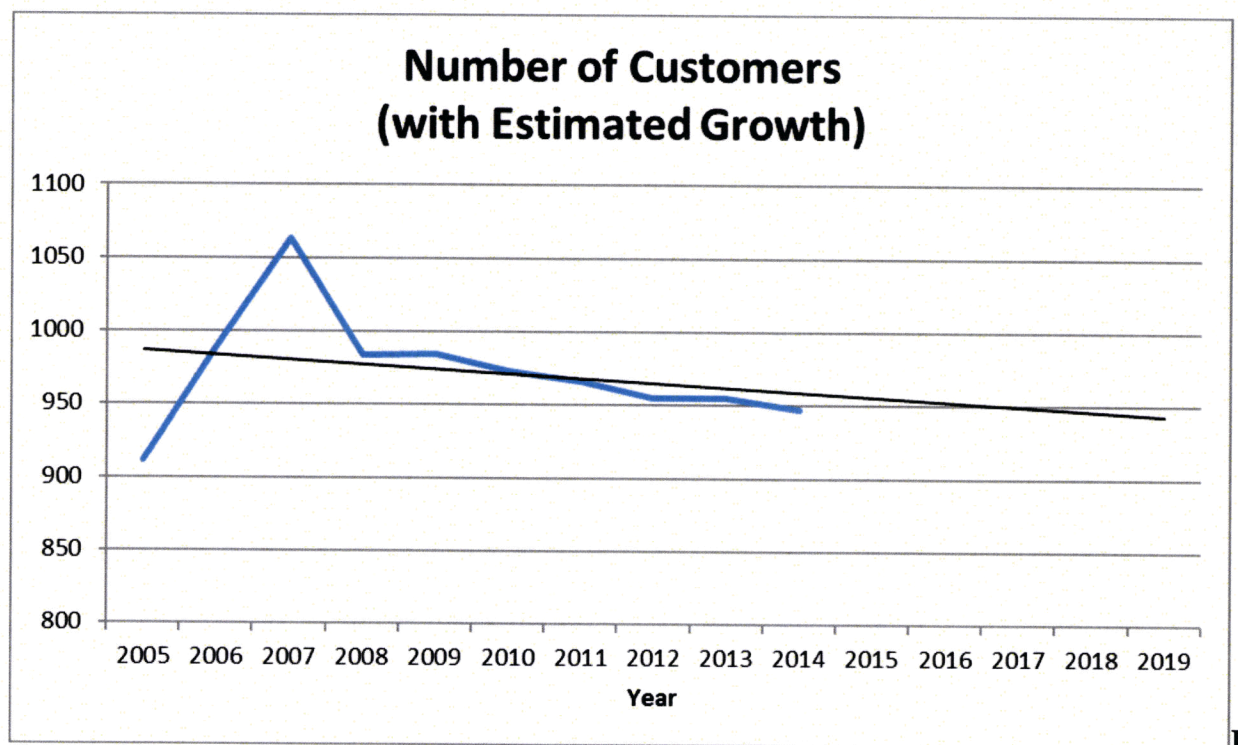


Figure 6. Joshua Valley Customer Growth Projection

E. ADEQ COMPLIANCE

Compliance

The ADEQ regulates the Joshua Valley water system under ADEQ Public Water System ("PWS") No. 08-017. According to the Compliance Status Report, dated July 22, 2015, based upon data submitted by the water system, ADEQ has determined that this system is in compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

The Company supplied invoices totaling \$390 for water testing expenses during the test year.⁵ Upon review it was determined that invoices were not submitted for all required tests, and that approximately \$100 of the invoices submitted were associated with tests that are not required on an ongoing basis. In addition, the per-test cost for Total Coliform increased from \$20 to \$25 during the test year.

There were no invoices submitted for MAP, so Staff contacted ADEQ to obtain that expense. In addition to Total Coliform and MAP, the Joshua Valley water system is required to perform tests for Lead and Copper every third year. There were no invoices submitted for these tests, so Staff concluded that they were not performed during the test year. In order to determine the cost for these tests Staff contacted the laboratory used by the Company, Mohave Environmental Lab ("Mohave"). The MAP testing costs obtained from ADEQ, and the Lead and Copper testing costs provided by Mohave are included in Staff's analysis of annual testing expenses.

The monitoring and testing expenses that were reviewed, evaluated, and recalculated by Staff are represented in Table B. Staff recommends its annual water testing expense estimate of \$3,490 be used for this proceeding.

⁵ See Exhibit 6 – Water Testing Support in the rate application.

Table B. Water Testing Cost

Water Test	Cost per Test	Quantity of Tests per 3 years	3 Year Testing Costs	Annual Testing Cost
Total Coliform	\$25	72	\$1,800	\$600
MAP - IOCs, SOCs, VOCs, Nitrate, Nitrite, Asbestos, Radiochemicals	\$2,730	3	\$8,190	\$2,730
Lead & Copper	\$48	10	\$480	\$160
Total Cost			\$10,470	\$3,490

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Joshua Valley service area is not located within any ADWR Active Management Area (“AMA”). ADWR’s Water Provider Compliance Report, dated October 5, 2015, indicates that the Company is currently compliant with departmental requirements governing water providers and/or community water systems.

G. ACC COMPLIANCE

A check of the Utilities Division Compliance Section database showed that there are no delinquent Commission compliance items for Joshua Valley.⁶

H. DEPRECIATION RATES

The following table lists the annual depreciation rates by NARUC plant category currently recommended by Staff. These rates represent typical and customary values within a range of anticipated equipment life. Staff recommends that the Company use the depreciation rates presented in Table C on a going forward basis.

⁶ Per Compliance Section email dated September 16 2015.

Table C. Depreciation Rate Table for Water Companies

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.00
320.3	Point-of-Use Treatment Devices	10	10.00
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant ⁷	---	-----

⁷ Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

Service Line and Meter Installation Charges

Joshua Valley proposes to increase its existing service line and meter installation charges.⁸ The proposed charges are refundable advances and are within the Staff's typical range of charges for service line and meter installations. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Staff recommends that the charges listed under "Company Proposed/Staff Recommended" in Table D be adopted.

Table D. Service Line and Meter Installation Charges

Meter Size	Company Current Tariff	Company Proposed/Staff Recommended		
		Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$320.00	\$490.00	\$132.00	\$622.00
3/4-inch	\$350.00	\$490.00	\$233.00	\$723.00
1-inch	\$400.00	\$547.00	\$293.00	\$840.00
1-1/2-inch	\$615.00	\$610.00	\$506.00	\$1,116.00
2-inch Turbine	\$850.00	\$927.00	\$1,031.00	\$1,958.00
2-inch Compound	-	\$927.00	\$1,884.00	\$2,811.00
3-inch Turbine	-	\$1,171.00	\$1,662.00	\$2,833.00
3-inch Compound	-	\$1,308.00	\$2,546.00	\$3,854.00
4-inch Turbine	-	\$1,661.00	\$2,647.00	\$4,308.00
4-inch Compound	-	\$1,866.00	\$3,632.00	\$5,498.00
6-inch Turbine	-	\$2,479.00	\$5,026.00	\$7,505.00
6-inch Compound	-	\$2,615.00	\$6,939.00	\$9,554.00
Over 6-inch	-	Cost	Cost	Cost

Curtailment Tariff

Joshua Valley has an approved Curtailment Tariff on file with the Commission.⁹

Backflow Prevention Tariff

Joshua Valley has an approved Backflow Prevention Tariff on file with the Commission.¹⁰

⁸ The Company's current charges were approved in Decision No. 64000.

⁹ See Docket W-02023A-15-0039.

¹⁰ See Docket W-02023A-10-0192.

Best Management Practices ("BMP") Tariff

Staff recommends that Joshua Valley file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/Water/forms.asp>. Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.